

DEFENSE HUMAN RESOURCES ACTIVITY

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

(TAB A)

The system of internal accounting and administrative control of the Defense Human Resources Activity (DHRA), in effect during the fiscal year ending September 30, 2002, was evaluated in accordance with the guidance provided by the Office of Management and Budget Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," dated August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982." Included is an evaluation of whether the system of internal accounting and administrative control of DHRA is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative control of DHRA are to provide reasonable assurance that:

- The obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by DHRA and is applicable to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of management control should not exceed the benefits expected to be derived, and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding description.

The evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of DHRA in

effect during the fiscal year that ended September 30, 2002, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This reasonable assurance is within the limits described in the preceding paragraph.

Determination of Reasonable Assurance Status

The basis for determining the reasonable assurance status of the DHRA is based on the quality and vigor of efforts by DHRA managers and employees to integrate management controls as part of their daily responsibilities. DHRA managers continuously monitored their programs throughout the year and periodically conducted self-assessments to assess their programs. The following describes how the evaluation was conducted and areas reviewed during the evaluation:

1. Progress Made in Institutionalizing the Management Control Program.

- Enterprise wide Strategic Plan. The Field Activity wide Strategic Plan was reviewed and re-drafted to incorporate elements of the President's Management Agenda including: Budget and Performance Integration, Strategic Human Resource Planning and Improved Financial Management. These elements have been applied to DHRA Core Values described in the Strategic Plan for FY 2002-2004. This plan is designed to establish internal policies regarding organizational goals, internal reporting requirements and specific criteria to be used in developing all employee standards. The Plan underwent reviews in FY 2001, FY 2002 and will be reissued with recommended changes in FY 2003.
- Management Control Performance Standards. A management control standard is in the annual performance evaluation for each supervisor, manager, division and/or office chief having responsibility for an assessable unit.
- Management Control Performance Requirements. Program managers regularly review their programs to ensure they are working as expected and there are no violations. Training spaces are reserved for managers and other staff members who require training, as necessary, consistent with their responsibilities and obligations. All DHRA Directors participated in the OUSD P&R's Management Control Program FY 2002 Training and recertification process.
- Revalidation of Assessable Units. The annual review of DHRA's assessable units was conducted with pertinent changes reported, as required, to the OUSD (P&R)
- DBT Resource Database Modules. Continued enhancement to the DBT Resources Database Modules (i.e., Budget Execution, Funds Distribution, Budget Tracking and Control, and the Executive Summary) to ensure managers have ready access to comprehensive information on all critical aspects of DBT resources.
- Budget Execution Reviews. Conducted quarterly budget execution reviews to ensure that all programs/divisions/offices are meeting their mission objectives within the constraints of their allocated budgets. Reported results of these budget execution reviews to senior management. Also reported results of the mid-year budget execution reviews to representatives from OUSD(Comptroller) and OMB.
- Formal Hearings. DHRA financial and program managers conduct formal hearings with the OUSD (Comptroller) and OMB staffs where the organization's

budget submissions are thoroughly reviewed, analyzed, and discussed. These include review of Operation & Maintenance, Defense-wide resources, Procurement, Defense-wide resources and Research and Development funding. POM and budget submissions were also reviewed, analyzed, and discussed.

- Policy and Procedural Guidance. The resource office within the Field Activity's Headquarters issues policy and procedural guidance to component resource managers for developing and submitting POM and budget requirements.
- Review of Project Acceptance and Data Release Policies. Project Acceptance and Data Release Policies were thoroughly reviewed during FY 2002 and updated to reflect new guidelines established by higher authority. The changes to access protocols and new security measures for all data access via the world-wide web established in FY 1999 continued to ensure compliance with Department of Defense policies through FY 2002. Semiannual organizational reviews are performed on project acceptance and data release policies. Training is conducted on an annual basis for all employees involved in the release of data. The reviews are accompanied by an annual statement that all personnel involved in the acceptance of data requests and the release of data are in compliance with organizational standards. An internal system for the review and approval of data releases that come under the purview of the Privacy Act of 1974 was used throughout FY 2002. This system provided management approval and visibility for all Privacy Act related data releases and provided employees with a mechanism that ensured they have followed approved procedures before accomplishing a data release. The Defense Logistics Agency Freedom of Information Policy Division reviewed the Privacy Act Self-Inspection Survey Module #IT and found that those operations are in compliance with the Privacy Act.
- Safeguarding Property and Assets. All IT equipment and office equipment (Fax's, copiers, cell phones, pagers, etc.) are tracked by each component within DHRA and accounted for in an inventory system. Outprocessing procedures include the return of any government owned equipment. All equipment is declared surplus and excessed using appropriate Departmental procedures.

2. Improvements to the Management Control Program Coverage.

- Assessable Units. All assessable units remained the same with minor internal realignments of functions with the exception of the elimination of the Defense Integrated Travel and Relocation Solutions (DITRS) office. The DITRS mission ended on September 30, 2001.
- Systems Certification and Accreditation. A major effort to certify and accredit Automated Information Systems within DHRA was initiated in FY 1998. This program has already resulted in a number of studies and documents which have enhanced the security of DHRA systems. The effort ensured a review was done using current guidance from OSD (C3I) and resulted in new accreditation for classified as well as unclassified but sensitive systems. A full three-year accreditation for the Real Time Automated Personnel Identification System (RAPIDS) was put in place in December of 1999, and upgrades to accommodate the Common Access Card (CAC) were completed by the end of December 2000. As a major accomplishment in FY 2002, The Defense Eligibility Enrollment

Reporting System (DEERS) successfully completed the full Certification and Accreditation resulting in full Authority to Operate. Certification and accreditation reviews were conducted on the Biometric Identification System (BIDS) and the Non-combatant Evacuation Operations System (NEO). The RAPIDS system and its Common Access Card Issuance process passed an intensive System Security Assessment by the National Security Agency in FY 2001 and this new system is undergoing a second review for a new version of the system. Similarly, a review of web site practices was conducted to ensure that sites meet DoD guidance for the operation of websites and the capture of information on individuals. During this review individual identification of employees was removed and a generic identification was substituted. In addition, a legal review of the warning and disclaimer banner was performed and the banner was revised based on input from DHRA legal counsel. A full accreditation and certification for the Defense Online Enrollment System (DOES) was put in place this Fiscal Year as well. All proper approvals are being sought and will be obtained for the Defense Integrated Military Human Resources System (DIMHRS).

- Contract Tracking Review. The automated tracking systems for contracts and deliverables were fully operational for all of FY 2002. This management tool captured and tracked contract oriented correspondence with the Defense Contract Command Washington (DCC-W). This quality assurance program has resulted in the timely execution of correspondence actions between DHRA components and DSS-W. COR Training was provided to all Project Managers as needed.
- Time and Task Tracking. During FY 2002, an internal management tool, the Time and Task (TNT) automated tracking system was used for the entire year. Automated suspense tracking systems were also used and enhancements were made to the systems to further delineate and define projects and tasks employees are assigned.
- Government-wide Purchase Card System Usage. Use of the IMPAC credit card program continues to be expanded throughout DHRA. In FY 2002, DHRA conducted an enterprise-wide internal review of individual purchases. In addition, DHRA Headquarters initiated an independent review of its purchase card program by the Defense Logistics Agency Program Coordinator. Processes and purchases were reviewed and no deficiencies or instances of fraud, waste or abuse were found. Recommendations resulted in changes in record keeping and internal review processes. Cardholders and approving officials underwent formal refresher training by the DLA program oversight staff. Detailed guidance, training, information and recertification materials were provided to approving officials and IMPAC credit card holders. Access to and use of the IMPAC credit card continues to be strictly controlled. Formal briefings are conducted in conjunction with meetings in the Headquarters for field personnel, so that cardholders are made fully aware of their responsibilities for the use and safeguarding of the cards. IMPAC card program managers set single-purchase limits and monthly limitations for each field location. Usage is monitored, purchases reviewed, and all bills are reconciled monthly.

- Execution Review Meetings. Continued the practice in FY 2002 of holding execution meetings to verify that commitment and obligation rates of funds for DHRA Operations and Maintenance (O&M), Research and Development (R&D), and Procurement Defense-Wide (PDW) were properly accounted for, fell within funding levels, and revealed no discrepancies. Quarterly execution review meetings were held with program sponsor representatives and designated agents to ensure that appropriate projects were carried out in a timely manner and funds were properly allocated toward the design of planned and approved projects. Monthly budget formulation and execution review meetings are held at the DHRA Headquarters Office.
- Office of Complaint Investigations (OCI) The OCI has implemented an automated case management system to evaluate and monitor the costs of investigations, productivity level of each field office, and the timeliness and quality of investigations. Process improvements have resulted in increased efficiency within OCI as a result of the automated case management system.
- Injury Compensation/Unemployment Compensation Division (ICUC) Between 1986 and 2002, the annual Federal workers' compensation bill increased from \$1.1 billion to \$2.2 billion. During this time, the Department of Defense (DoD) bill increased from \$378 million to \$619 million. To reduce costs while maintaining the highest possible level of service for injured workers, CPMS provides a variety of services to personnel offices, including policy support and guidance, injury compensation liaisons, an automated data tracking system, and an innovative reemployment program. Through these efforts, the Department was able to avoid \$121 million in costs while the bill for all other Government Agencies increased by \$1.2 billion from 1986 to FY 2002. These trends are expected to continue. The ICUC tracking system is deployed to all DoD sites. The system makes vital case and program information readily available. Reports, detailed case information, suspense tracking, and routine correspondence is now generated automatically, saving both time and money. The centralized database combines personnel, payroll, and Office of Workers' compensation case management information for each claim filed by a DoD employee. Embedded reports can provide information based on tracking specific cases or an entire caseload. The system is currently being upgraded to a web based application that enables electronic transfer of claims forms to the Department of Labor. Audits have been performed on 385,967 unemployment claims by using the tracking system. Savings received from disputing erroneous unemployment charges between FY 1994 and FY 2002 total \$9 million.
- Administration of the Wage Setting Program - Appropriated and Non-Appropriated Funds The Wage and Salary Division has implemented a management system to evaluate and monitor the costs of surveys, productivity level of each office, and the timelines and quality of products. Automated reports and process improvements have resulted in increased efficiency within the Division as a result of the system.
- Administration of Civilian Personnel and Information Systems Program. Formal and informal meetings and presentations are conducted regularly with both upper

management and individual users on the status of appropriate systems to get their input for changes/improvements/new requirements.

3. **Problems Encountered in Implementing the Program.** No unusual problems were encountered

4. **Other Program Considerations.**

- Functional transfers. Functional transfers to DHRA from other DoD activities required continued close attention to ensure that the functions and funds transferred to DHRA were quickly brought under DHRA Internal Control Guidelines.
- Defense Leadership and Management Program (DLAMP). DLAMP is a DoD-wide civilian leader and management training, education, and development program to ensure the availability of a highly capable, diverse, and mobile cadre of senior civilian managers and executives. The program was refocused in FY 2002 to be more flexible, cost-effective, and efficient in meeting short and long term requirements. Refocusing the program resulted in a dramatic reduction in program costs and will generate savings to the Department. DHRA's Civilian Personnel Management Service (CPMS) is responsible for administration and day-to-day operations of the program; and management and administrative support to the DLAMP council.
- Regionalization and Systems Modernization Division (Reg/Mod). The following MC measures have been taken by the Regionalization and Systems Modernization Division (Reg/Mod) and the Vendor Management Office (VMO) to provide reasonable assurance that obligations and costs are in compliance with law; funds, property, and other assets are safeguarded; and revenues and expenditures are properly recorded and accounted. The Reg/Mod Division is responsible for a significant amount of computer hardware and software assets, budget authority, and oversight for a contract with Lockheed Martin Systems Integration (LMSI) in the amount of approximately \$20 million annually. To comply with the FMFIA, Reg/Mod reviewed vulnerable areas and developed procedures and spreadsheets to ensure proper accountability.

Software: The Reg/Mod Division maintains a detailed inventory of all software purchased for the modern Defense Civilian Personnel Data System (DCPDS). The Division maintains 100% accountability for all of the software that is owned by CPMS to support the modern DCPDS. Much of this software is physically in the hands of LMSI and they have acknowledged receipt and accepted accountability.

Hardware: The Reg/Mod Division maintains a detailed inventory of the servers and associated hardware belonging to CPMS, including hardware furnished to LMSI as Government Furnished Equipment (GFE). The Division maintains 100% accountability of all GFE hardware, which has been bar-coded and tracked on a separate spreadsheet. It is the policy of CPMS Reg/Mod Division, as stated in the DCPDS Security User's Guide that all resources which process, store, or transmit data will be secured within areas that provide adequate protection during and after duty hours. All database servers, application servers, and supporting telecommunications equipment are installed in areas that have been designated as Controlled Access Areas. Surge protection and uninterruptible

power supply systems are installed on electrical power sources serving modern DCPDS resources. We require all of the Components to comply with this policy. Each Regional Service Center and Customer Support Unit has an appointed Information Security Support Officer who ensures that the resources are secured and CPMS policies are adhered to.

Lockheed Martin Systems Integration Contract: The VMO exercises primary responsibility for protecting the Government's interests and ensuring the accountability of the vendor who maintains, sustains, and operates the modern DCPDS. The VMO meets regularly to discuss contract compliance and related issues. Additionally, the Contracting Office Technical Representative (COTR) and the alternate COTR meet bi-weekly with the vendor to review performance, evaluate problem reports, and, as needed, discuss and analyze other issues related to contract compliance and provide guidance to the vendor. LMSI formally briefs the CPMS Director bi-monthly on their accomplishments and the status of various initiatives affecting the contract. Additionally, LMSI provides an annual briefing to summarize accomplishments, explain problems, and review projected actions. On August 5th and 6th, 2002, the CPMS Director and Deputy Director for HR Automated Systems met with LMSI senior management to assess the status of the vendor's efforts regarding major program initiatives. The meeting also included an executive session to discuss problems and future initiatives.

The process used to arrive at a decision to migrate to a Commercial-Off-The Shelf (COTS) solution to support the modern DCPDS and the decision to award the contract to LMSI has been closely examined by the General Accounting Office (GAO) and the Department of Defense Inspector General (DoDIG). The extensive reviews by both GAO and the DoDIG, did not disclose any significant problems or deficiencies with these decisions or the contract award. Service Level Agreements (SLAs) are in place to penalize LMSI for any failures in their performance. Reductions of up to 25% of monthly costs will be taken should there be LMSI performance shortfalls. To date, this contingency has not had to be exercised. The LMSI contract is a firm fixed price contract. Vendor performance is closely monitored by the VMO throughout the year.

5. **Deviations from OMB Guidelines.** None.
6. **Special Concerns.** None.
7. **Methods, Mechanisms, or Techniques Employed in the Program.**
 - a. **Weakness Tracking System.** Not applicable.
 - b. **Organization IG or Audit Service Findings**
 - From FY 1996 through FY 2002, DHRA's Information Technology assets have undergone auditing and extensive testing with security Tiger teams. During FY 1996, a DISA VAP team performed Vulnerability Assessment testing against DHRA computer assets. The VAP team came on-site, briefed the staff, and obtained a network topology. They returned to their offices and started testing the ability to "break" the security on specific DHRA systems - primarily the Unix servers. They were unable to do so.
 - As a follow-on during FY 1997, Planning Research Corporation (PRC) studied security and produced a risk analysis. PRC also specified firewall architecture and DHRA components procured firewalls to protect files and the LAN. During

FY 1998, DHRA implemented firewall protection for many of its network accessible systems and has installed monitoring software to warn about attempted unauthorized access. These procedures were in place throughout FY 2002. During FY 2002, there was no unauthorized access to either the LAN or files.

- As part of the DoD DITSCAPP accreditation and certification procedures, external penetration testing and internal intrusion and host and firewall vulnerabilities were conducted. Results were all excellent. The security procedures were in place throughout FY 2002. Sandia Labs conducted an on-site vulnerability assessment as part of the Common Access Card project. Results credited the project with excellent security.

c. IG, DoD Reports and Reviews

- In Report No. D-2002-037, the DoDIG expressed an unqualified opinion on the FY 2000 financial statements for the Military Retirement Fund. The IG noted that its contractor "did not detect any material weaknesses in internal controls during the audit. However, the review revealed 33 general control weaknesses in electronic data processing at the computer centers serving the Fund. Control weaknesses included deficiencies in access controls, security policies and procedures, and program change controls. The weaknesses expose Military Retirement Fund programs and data to improper access, and could adversely affect the ability for Fund managers to record, process, and summarize financial information.
- During FY 2001 DHRA was reviewed by the DoDIG in an audit of the Department of Defense's Implementation of the Statement of Federal Financial Accounting Standard No. 10 (SFFAS # 10), Accounting for Internal Use Software (Project No. D2001FH-0079). In FY 2002, the report noted that no policy existed within the Department establishing reporting thresholds or guidelines necessary for implementation and no financial systems were widely available for use in accurate reporting. DHRA will be brought into compliance with SFFAS #10 requirements when Departmental policy and systems exist to support that effort
- The DoDIG and GAO conducted audits of the DoD Civilian Personnel Regionalization and Systems Modernization program. Audits were performed by GAO from 1998 through 2000 and by DoDIG in 1997-1998 and 2000-2002. The review of the civilian personnel regionalization and systems modernization program was completed in FY 1998. The DoDIG's findings and comments were incorporated into the planning and implementation of the modernized DCPDS.

d. Reports of internal reviews and inspections

- DHRA Headquarters established a Review Team to perform a review of the Joint Advertising, Market Research and Studies (JAMRS) Programs for Fiscal Years 2000-2002, following action taken by the OUSD (Comptroller) on December 10, 2001 to zero out funding for the programs. The purpose of the review was to identify problems with procedures or management controls that may have contributed to the action taken by the Comptroller and to develop recommendations for improvements to the existing programs' operations to ensure future success. Implementation of the Review Team's findings is nearly complete and Comptroller and Congressional concerns regarding the programs' execution of resources have all been successfully addressed. Thirty-six percent of the FY

- 2002 funding for the program was restored in July 2002 in response to the effective steps taken by DHRA to address program issues.
- Vulnerability Assessments were performed on contract receiving report verification controls for component programs, Personnel Testing Division, CAC/RAPIDS/DEERS and the Office of the Actuary.
 - Triannual reviews of all unliquidated obligations was performed in compliance with finance and accounting regulations.
 - A complete review of DHRA's Defense Manpower Data Center's (DMDC) data holdings, data request and release procedures, operational programs, data delivery systems, and published reports, was conducted for the publishing of the DMDC Profile 2002. Internet access to the DMDC Profile was reviewed and made compliant with DoD guidelines.
 - Semi-annual reviews of all organization goals and objectives, information access and release policies, and policies on accepting new work and commitment of resources were conducted.
- e. **MC Training:** Training spaces are reserved for managers and other staff members who require training, as necessary, consistent with their responsibilities and obligations.
 - f. **MC Performance Standards.** Comments on performance of management control functions are included in managers' performance standards and evaluations for both civilian and military personnel with significant MC responsibilities. Language regarding internal controls in performance standards is tied directly to the DHRA Strategic Plan.
 - g. **GAO Reports and Reviews.** The review of the civilian personnel regionalization and systems modernization program is ongoing. During FY 1999 the General Accounting Office (GAO) completed its review of the DoD civilian personnel regionalization and systems modernization program and published its report *"DEFENSE IRM: Alternatives Should Be Considered in Developing the New Civilian Personnel System,"* dated January 27, 1999. During FY 2000 GAO began a review of "Use of Commercial Off-The-Shelf (COTS) Applications to Improve Human Resources Functions Within Federal Agencies (GAO Code 511832)."
 - h. **Review of OSD Functional Proponent Proposals.** Not applicable.
 - i. **Information Technology initiatives.** Not applicable
 - j. **MC References in Directives, Regulations, and Other Guidance.** References relative to MC were reviewed by managers and employees with significant MC responsibilities to ensure compliance with program objectives.
 - k. **Congressional Reviews and Hearings.** Throughout FY 2002, DHRA hosted hearings with Congressional committee staff on various programs using Operations and Maintenance funding. Other briefings on specific programs and other support were provided as needed throughout the year.
 - l. **Command or other subordinated organization "Letters of Assurance".** Not applicable.
 - m. **Productivity statistics.** Not applicable.
 - n. **Defense Regional Interservice Support Studies.** Not applicable
 - o. **Management Reviews in other Functional Areas:**

- DHRA participated in the 2001-2002 Biennial Review. Information collected during that review will be used to facilitate strategic planning and develop budget and performance integration initiatives. Business Lines reviewed included: CARE Division, Field Advisory Services, Injury and Unemployment Compensation (ICUC), EEO Complaint Investigations, Wage and Salary, and the Defense Manpower Data Center (DMDC) Data Archive Supporting Personnel and Readiness Information Requirements.
 - DHRA Headquarters performed regular reviews of individual account records for holders of the Defense Travel Card. Any discrepancies or activity in question was reviewed and addressed in compliance with the Department and Bank of America guidance for administering the Travel Card program.
 - In response to Presidential Decision Directive (PDD) 67, "Enduring Constitutional Government, Continuity of Operations Planning and Continuity of Government Operations" DHRA developed and implemented a COOP to supplement policy, provide guidance and assign responsibilities to ensure continuous performance of the Field Activities essential operations. Development of the plan required a complete internal review of the organization to identify essential operations and develop plans for use during national security or domestic emergencies. The COOP was reviewed in FY 2002, updated and recertified.
- p. **Quality Assurance Reviews.**
 - Internal budget and review processes involve the reconciliation of internal automated tracking systems with the automated finance and accounting systems that provide the official data for the Department to ensure execution targets are met and all funding documents are processed correctly. Reviews of labor dollars and manhours are conducted regularly to ensure automated systems reflect actuals and that organizational targets are met.
 - Continuous reviews by project managers ensure all contract specifications for deliverables are met including both quality and timeliness.
 - DHRA continues to perform reviews of business processes to ensure published Standard Operating Procedures are in place as necessary to ensure control of resources and that Departmental policy guidance is followed consistently.
- q. **"Hot Line" Reports.**
 - In FY 2002, the DoDIG also performed audit work to examine a DoD Hotline allegation that CPMS mismanaged funds for the DLAMP and DCPDS programs. The DoDIG determined that the allegations were unsubstantiated.
 - All Investigation and internal reviews associated with Hot Line complaints found that management "followed proscribed processes and acted appropriately."